

REPORT ON EXAMINATION
OF THE
COVENTRY HEALTH AND LIFE
INSURANCE COMPANY
AS OF
DECEMBER 31, 2003

State of Delaware



Department of Insurance

Dover, Delaware



I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2003 of the

COVENTRY HEALTH & LIFE INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Kenneth L. Miller*

DATE: 30TH JUNE, 2005



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 30TH DAY OF JUNE, 2005.

Matthew Denn

Insurance Commissioner


Deputy Insurance Commissioner

REPORT ON EXAMINATION
OF THE
COVENTRY HEALTH & LIFE INSURANCE COMPANY
AS OF
December 31, 2003

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 30TH day of JUNE, 2005.

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April 20, 2005

Honorable Alfred W. Gross
Chairman, NAIC Financial
Condition Subcommittee
2301 McGee, Suite 800
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Honorable Susan F. Cogswell
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Honorable Alfred W. Gross, Commissioner
Secretary-Treasurer, Southeastern Zone
State Corporation Commission
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Commonwealth of Virginia
P. O. Box 1157
Richmond, Virginia 23218

Honorable Sally McCarty, Commissioner
Secretary-Treasurer, Midwestern Zone
Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 04.035, an Association examination has been made of the affairs, financial condition and management of the

COVENTRY HEALTH AND LIFE INSURANCE COMPANY

hereinafter referred to as the "Company," incorporated under the laws of the State of Delaware. The examination was conducted at the home office of the Company, located at 6705 Rockledge Drive, Bethesda, Maryland 20817 and the following report is herewith submitted. In addition, the examiner did some on site work at the Company's Harrisburg, Pennsylvania service center.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 1999. This examination covered the period from January 1, 2000, through December 31, 2003, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company Officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards. In addition to items hereinafter incorporated as part of the written report, the following were checked and made part of the workpapers of this examination:

- Fidelity Bonds and Other Insurance
- Officers, Employees and Agents Welfare
- Statutory Deposits
- Correspondence with Regulatory Agencies
- Legal Actions
- All Asset and Liability Items Not Mentioned in the Report
- Subsequent Events

The 2003 (current) examination was conducted by the Delaware Department of Insurance in accordance with the Association Plan of Examination guidelines established by the National Association of Insurance Commissioners. The State of Delaware (Northeastern Zone) was the only participant in the examination.

HISTORY

The Company was incorporated in 1968 under the laws of the State of Texas as a stipulated premium company with the name of American Service Life Insurance Company. The Company was converted by charter restatement in 1984 as an old-line legal reserve life insurance company operating under the provisions of Chapter 3 of the Texas Insurance Code.

The Company's Articles of Incorporation and By-laws were amended in December 1995, to change the name of the Company from American Service Life Insurance Company to its present name, Coventry Health and Life Insurance Company.

As a Texas domiciled Company, the Company was originally admitted by the State of Delaware on December 30, 1982, to transact the business of Life insurance, including Annuities and Health. A new Certificate of Authority was issued on August 26, 1999, which stated that the Company was originally admitted on December 30, 1982, as a Texas corporation and that effective May 14, 1999, the Company re-domesticated from Texas to Delaware.

"Certificate of Domestication" was filed with the Secretary of State of the State of Delaware on May 14, 1999, under which the Company re-domesticated from Texas to Delaware pursuant to 18 Del. C. §4946. A "Certificate of Incorporation" and a "Restated Certificate of Incorporation" were also filed with the Secretary of State of the State of Delaware on May 14, 1999.

The Company is still authorized to transact the business of Life, including Annuities and Health.

CORPORATE RECORDS

The minutes of the meetings of stockholders, directors and committees adequately approved and supported Company transactions and events.

CAPITALIZATION

At December 31, 2003, the capital structure of the Company was as follows:

Common Stock – 2,500,000 shares of common stock are outstanding (2,500,000 shares is the correct number of shares which are authorized), with a par value of \$1 per share. This represents a total book value of \$2,500,000.

Gross Paid In and Contributed Surplus - \$31,450,000

At December 31, 2003, all 2,500,000 shares, with a par value of \$1 per share, of the Company's capital stock were held by Coventry Health Care, Inc., a Delaware Corporation.

DIVIDENDS TO STOCKHOLDERS

The following schedule reflects the dividends declared and paid to the Company sole shareholder, Coventry Health Care, Inc. during this examination period. All dividends were filed with the Delaware Department of Insurance in accordance with **18 Del. C. §5005**.

<u>Year:</u>	<u>Dividend Type:</u>	<u>Dividend Amount:</u>
2000	Ordinary	\$ 4,300,000
2001	Extraordinary	17,500,000
2002	N/A	0
2003	Extraordinary	25,000,000

Subsequent Event:

In 2004, the Department approved the payment of an ordinary dividend to Coventry in the amount of \$16,000,000.

MANAGEMENT AND CONTROL

The management of the Company is vested in a Board of Directors, which shall consist of not less than five (5) nor more than ten (10) members. The number of directors may be increased by amendment to the By-laws, said amendment requiring a majority vote of the Board of Directors. Each director shall be elected for a one-year term. The following Board of Directors members were

elected by the Board on April 1, 2003 and were identified on the Jurat Page of the 2003 Annual Statement as members of the Board as of December 31, 2003:

<u>Name</u>	<u>Principal Occupation</u>
Allen F. Wise	President and Chief Executive Officer Coventry Health Care, Inc.
Thomas P. McDonough	Chief Operating Officer Coventry Health Care, Inc.
Shawn M. Guertin	Vice President of Finance Coventry Health Care, Inc.
Dale B. Wolf	Executive Vice President and Chief Financial Officer Coventry Health Care, Inc.

The management of the Company was actually vested in four (4) Directors as of December 31, 2003. The By-laws state that the Board of Directors shall consist of no less than five (5) directors.

It is recommended that the Company comply with its by-laws regarding the number of directors in accordance with 18 Del. C. §4903.

The following officers were elected by the Board of Directors and serving at December 31, 2003:

<u>Name</u>	<u>Title</u>
Shawn M. Guertin	President
Dale B. Wolf	Treasurer and Vice President
Shirley R. Smith	Secretary and Vice-President
John J. Ruhlmann	Corporate Controller
Joann Hess	Appointed Actuary

CONFLICT OF INTEREST

The Company has established a procedure for disclosure by its Officers and Board of Directors of any material interest or affiliation on the part of its officers and directors that might be in

conflict with their official duties. A review of the completed questionnaires disclosed no conflict of interest.

ASSUMPTION REINSURANCE:

Effective June 1, 2001, the Company entered into an agreement whereby assets and liabilities related to 100% of its policyholders in Pennsylvania were transferred to HealthAssurance Pennsylvania, Inc (HASPA), a newly formed wholly-owned subsidiary of Coventry Health Care, Inc. (Parent). Total liabilities and assets transferred under this transaction was \$55,548,440.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System as defined in Section 5001 of the Delaware Insurance Code. On September 27, 1987, Coventry Corporation, a Delaware corporation and the then ultimate parent corporation in the Insurance Holding Company System, acquired all of the issued and outstanding stock of the Company. On April 16, 1991, Coventry Corporation became a publicly held corporation.

On November 17, 1997, Coventry Corporation formed Coventry Health Care, Inc., as its wholly owned subsidiary. On April 1, 1998, in a business combination, Coventry Corporation became a subsidiary of Coventry Health Care, Inc. and Coventry Health Care, Inc. became the publicly held corporation and the ultimate parent of the Insurance Holding Company System. On June 22, 2000, Coventry Corporation was merged with and into Coventry Health Care, Inc. and Coventry Health Care, Inc. became the direct parent of the Company.

The Company filed forms "B" and "C" for the years 2000 through 2003 in compliance with Title 18 Del.C. §5004 which requires that forms "B" and "C" be filed by June 1 of each year for the previous calendar year.

The following expense sharing agreements, reinsurance arrangements and consolidated tax sharing agreement in effect as of December 31, 2003, were reported on Form B. All agreements have been filed in accordance with Title 18 Del.C. §5004. All employees performing the following services on behalf of the Company were employed by either Coventry Health Care, Inc., or one of its subsidiaries. The following is a summary of these agreements:

- (1) Effective January 1, 1999, a Management Service Agreement between the Company and Coventry Health Care, Inc (CHC) whereby CHC will provide management services relating to:

Senior Management Service	Advertising, Marketing and Public Relations
Purchasing Services	Information Systems
Service Center Systems	Pharmacy Services
Corporate and Legal Services	Regulatory Compliance and Governmental Affairs
Accounting Services	Tax Compliance and Consulting
Facilities Management	Risk Management
Human Resources Consulting	Payroll Services
Reinsurance Program Administration	

Effective January 1, 2003, an amendment was made which changed the terms of compensation. The Company pays CHC a monthly fee calculated by multiplying the number of members by the applicable per member per month (PMPM) rate: There are three (3) components to the Management Fee:

Information System Services
Service Center Services
General Corporate Expenses

- (2) Administrative Services Agreement, various effective dates, with eleven (11) affiliated plans in the holding company system was reviewed. These agreements were in effect as of examination date and included such services as noted below:

Management and General Administrative Services	Medical Management
Sales and Marketing	Provider Relations and Contracting
Financial Services	Facilities and Support

- (3) Effective February 9, 1999, a parental guarantee agreement was entered into between the Company and CHC. Under this agreement, CHC guarantees that while this agreement is in full force and effect, CHC shall ensure that sufficient funds are held by the Company to maintain the Company's capital and surplus position at or above the company action level as defined by the applicable risk based capital (RBC) formula established in the Delaware Insurance Code.

- (4) Effective June 1, 2002, the Company and WellPath Select, Inc. entered into a insolvency continuation agreement whereby the Company will pay claims in case of WellPath Select's insolvency.
- (5) Reinsurance Agreements, various effective dates, with fifteen (15) affiliate health plans whereby the Company reinsures these plans through excess risk agreements. Retention levels and products vary depending on the plans.
- (6) The Company participates in the consolidated federal income tax allocation agreement of Coventry Health Care, Inc., and its subsidiaries, based upon an "Income Tax Allocation Agreement" effective December 31, 1998. Basically, the Agreement calls for the Company's taxes to be calculated on a separate return basis.

The organizational chart reflects the identities and interrelationships between the Company, Parent, all affiliated insurers, and other members of the holding company system as of December 31, 2003:

Coventry Health Care, Inc., Delaware Corporation

- Coventry Financial Management Services, Inc, Delaware Corporation
- Coventry Prescription Management Services, Inc, Nevada Corporation
- Coventry Services Corporation, Delaware Corporation
- Coventry Management Services, Inc, Pennsylvania Corporation
- Coventry Healthcare Management Corporation, Delaware Corporation
 - HealthAssurance Financial Services, Inc, Delaware Corporation
- Coventry Transport Network, Inc., Delaware Corporation
- WellPath Preferred Services, Inc. North Carolina TPA
- Coventry Health Care Investment Corporation, Delaware Corporation
- Coventry Health and Life Insurance Company, Delaware Life and Health Insurance Company
- Coventry Health Care of Delaware, Delaware HMO
- Coventry Health Care of Georgia, Inc, Georgia HMO
- Coventry Health Care of Iowa, Inc. Iowa HMO
- Coventry Health Care of Nebraska, Inc. Nebraska HMO
- Coventry Health Care of Pennsylvania, Inc. Pennsylvania HMO
- Coventry Health Care of Louisiana, Inc. Louisiana HMO
- HealthAmerica Pennsylvania, Inc. Pennsylvania HMO
- HealthAssurance Pennsylvania, Inc. Pennsylvania PPO
- Southern Health Services, Inc. Virginia HMO
- Group Health Plan, Inc. Missouri HMO
- Coventry Health Care of Kansas, Inc. Kansas HMO
- Carelink Health Plans, Inc. West Virginia HMO
- WellPath Select Inc. North Carolina HMO
- Altius Health Plans, Inc. Utah HMO
 - Altius Health Administrators Inc. Utah TPA
- HealthCare USA Midwest, Inc. Delaware Corporation
 - HealthCare USA of Missouri, LLC, Missouri Medicaid HMO
- PersonalCare Health Management Inc. Illinois Corporation

PersonalCare Insurance of Illinois, Inc. Illinois HMO
 SouthCare PPO, Inc. Missouri PPO
 CHC Casualty Risk Retention Group, Inc. Vermont Reinsurer
 MidAmerica Health Reinsurance, Ltd, Missouri Offshore Captive

GROWTH OF COMPANY

The following information was obtained from the Company's filed annual statements and covers the five (5) preceding years. The 1999 amounts were taken from the filed 12/31/99 Examination Report.

	ADMITTED	CAPITAL AND	GROSS	NET
<u>YEAR</u>	<u>ASSETS</u>	<u>SURPLUS</u>	<u>PREMIUM WRITTEN</u>	<u>INCOME</u>
2003	\$103,168,924	\$50,406,352	\$259,256,496	\$34,710,163
2002	94,426,081	40,594,248	179,998,080	12,079,829
2001	81,121,899	28,551,148	289,249,536	9,382,580
2000	102,758,803	39,622,188	360,370,569	4,607,383
1999	82,264,074	30,447,302	303,430,058	10,510,404

Admitted Assets and gross premium written went up and down for each year under examination beginning in 2000. The most dramatic change was in 2001 when the Company transferred its Pennsylvania PPO business to HealthAssurance Pennsylvania Inc. The Company's net income has grown due to positive results of its operations and its capital and surplus account has increased albeit not as significantly due to dividends payments to it parent.

NAIC RATIOS

The Company's NAIC Financial Ratios from the Insurance Regulatory Information Systems (IRIS Ratios) were reviewed for the year 2003 and it was noted that the Company had received no unusual values in this year.

TERRITORY AND PLAN OF OPERATION**Territory:**

The Company is licensed in the 33 states and the District of Columbia at December 31, 2003.

The premiums written by jurisdiction are noted below:

<u>Jurisdiction:</u>	<u>Direct Written Premium</u>
Delaware	\$ 2,881,748
Georgia	8,853,664
Illinois	2,364,937
Iowa	26,952,078
Kansas	6,512,310
Louisiana	3,528,888
Maryland	293,707
Missouri	22,000,278
Nebraska	4,446,272
North Carolina	2,038,941
Ohio	24,079,665
Pennsylvania	7,931,529
Virginia	23,237,666
West Virginia	40,786,040
Total Direct Premiums Written	\$175,907,723
Assumed Premiums	83,348,773
Less Ceded Premiums	<u>1,529,305</u>
Net Premiums Written	<u>\$257,727,191</u>

The Company incorrectly identified all the premiums for the specific and aggregate stop loss business as written in Delaware. Total premium for this business was \$2,150,822. Not all the contracts were written in Delaware.

It is recommended that the Company ensure all business is correctly allocated to each state in accordance with the NAIC Life and Accident and Health annual statement instructions and 18 Del. C. §526.

Plan of Operation:

The Company is marketed as part of the Coventry Group of companies under its parent company, Coventry Health Care, Inc. Business is primarily acquired solely through the use of independent agents/brokers.

The Company's direct business is comprised of the premiums on preferred provider organization (PPO) and point of service (POS) products for which the Company assumes full underwriting risk. Said risks are offered individually or automatically included in the commercial products and flexible provider products offered through Coventry's full range of managed care products and its health maintenance organization (HMO) system. In addition, the Company began writing specific and aggregate stop loss business where the insured has a high retention limit. This business was ceded 80% under a quota share agreement. See ceded reinsurance below.

CONTRACTS AND AGREEMENTS:

The Company's investment accounting is performed by Conning Asset Management Company. Conning has an agreement with Coventry Health Care, Inc. The Company is not listed as a party to the agreement which also includes investment management services. The Company is charged a monthly fee based on its corporate business units assets. The other business units (plans) are also charged a fee based on assets of each plan which includes CHLIC assets. The allocation process does not seem to be representative of the contract terms and the Company is not an identified party to this contract.

It is recommended that the Company formalize an agreement for accounting services reflecting the duties and responsibilities provided by Conning Asset Management to CHLIC and formalize a process to properly charge the Company based on contract terms.

The Company has an underwriting and administrative management agreement with Medical Risk Managers, Inc. (MRM) MRM is to maintain certain insurance coverage that protects the Company under this agreement. More specifically, MRM's umbrella and liability coverage should include the Company as an additional insured.

It is recommended that the Company ensure compliance with the terms of its underwriting and administrative management agreement with Medical Risk Managers.

REINSURANCE

The Company did not produce or reinsure any life insurance business. All business assumed and/or ceded was accident and health business.

Assumed Reinsurance:

Effective in 2001, the Company began providing Excess of Loss to its affiliated health maintenance organizations (HMO). The examiner reviewed the sixteen (16) reinsurance assumed agreements in force as of December 31, 2003. All agreements were reported on Schedule S-Part 1-Section 2 of the 2003 Annual Statement. All of these agreements were for one year and are annually renewed.

The Company provides yearly coverage of 90% of 1,000,000 in excess of the affiliate's retentions, between \$100,000 - \$200,000, per member per year for Commercial products, and 80% of \$1,000,000 in excess of retentions, between \$75,000 - \$200,000, on Medicare and Medicaid products. Total assumed reinsurance premiums in 2003 were \$83,348,773.

Ceded Reinsurance:

The Company had one contract in place in 2003. The Company reported ceding to Everest Reinsurance Company under an 80% quota share agreement its specific and aggregate stop loss business pursuant to an agreement dated October 1, 2002, for a term of one (1) year and perpetual unless cancelled. The agreement contained the required insolvency clause. Total ceded premium in 2003 was \$1,529,305.

ACCOUNTS AND RECORDS

Accounting records and financial reports of the Company are compiled at Coventry Health Care, Inc.'s corporate headquarters in Bethesda, Maryland. Accounting books of original entry for the Company are maintained at thirteen (13) business units serviced at the following locations:

Corporate-reinsurance and stop loss business units	Bethesda, Maryland
Nebraska and Iowa Business Units	West Des Moines, Iowa
Kansas Business Unit	Kansas City, Missouri
Louisiana and Georgia Business Unit	Atlanta, Georgia
Delaware Business Unit	Wilmington, Delaware
Wellpath North Carolina Business Unit	Morrisville, North Carolina
HealthAmerica Pennsylvania Business Unit	Harrisburg, Pennsylvania
Group Health Plan-Missouri	Earth City, Missouri
Southern Health Virginia	Richmond, Virginia
Carelink, West Virginia	Charleston, West Virginia

The Company's financial statements are audited each year by the firm of Ernst & Young, LLP of Baltimore, Maryland. The examiners reviewed the CPA's workpapers for the year 2003 and utilized them to the fullest extent possible.

Annual and Quarterly Statement preparation is performed/compiled by the Company's corporate office in Bethesda, Maryland.

It is noted that the Company filed an Amended Annual Statement in 2003 to include additional notes regarding related party contingencies.

The following items were noted regarding the December 31, 2003 financial records and its annual statement filing and the respective exhibit and schedules:

The Company's December 31, 2003 trail balance reflects the incurred but not reported (IBNR) reserves for its aggregate and specific stop loss business net of reinsurance. Is it required by SSAP #61, paragraph #22 that the Company reflect the reserves at gross and a balance sheet credits (deductions) for ceded amount to its policy reserve and unpaid claims.

It is recommended that the Company reflect the gross IBNR and the ceded IBNR portion separately in the Company financial records in accordance with SSAP #61 and Delaware Law, Title 18 Del. C. §526.

To better track all business at the plan level, the finance centers includes the claims assumed and ceded on all the business, including the business underwritten by the Company. The Company then incorporates these numbers (reinsurance on itself) into Exhibit 8, Part 2 and Schedule H, Part 8. The amounts are offset and the financial statements are not effected.

It is recommended that the Company ensure that Exhibit 8, Part 2 and Schedule H, Part 8 are prepared properly and only include business assumed from and ceded to other entities in accordance with the NAIC Life and Accident and Health annual statement instructions and Delaware Law Title 18 Del. C. §526.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2003.

Analysis of Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Account
Examination and Surplus Changes

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. Write-ups on the individual accounts in the Notes to the Financial Statements section of this report are presented on the “exception basis”. Only comments relative to adverse findings, material financial changes, or other significant regulatory concerns are noted.

Analysis of Assets
December 31, 2003

	Ledger <u>Assets</u>	Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>	<u>Note</u>
Bonds	\$ 62,891,675	\$ -0-	\$ 62,891,675	
Cash on deposit	2,187,148	-0-	2,187,148	1
Cash equivalents	6,298,008	-0-	6,298,008	
Short-term investments	13,042,173	-0-	13,042,173	
Investment income due and accrued	576,909	-0-	576,909	2
Premiums and considerations:				
Uncollected premiums and agents'				
balances in the course of collection	2,230,097	-0-	2,230,097	
Amounts receivable relating to				
uninsured plans	246	-0-	246	
Current federal income tax				
recoverable	1,464,511	-0-	1,464,511	
Net deferred tax asset	495,187	42,301	452,886	
Receivable from parent,				
subsidiaries and affiliates	15,031,206	-0-	15,031,206	1, 3
Other assets nonadmitted	<u>185,842</u>	<u>185,842</u>	<u>-0-</u>	
 Total Assets	 <u>\$ 104,403,002</u>	 <u>\$ 228,143</u>	 <u>\$ 104,174,859</u>	

Liabilities, Surplus and Other Funds
December 31, 2003

		<u>Note</u>
Contract claims: accident and health	\$44,583,437	4
Premiums and annuity considerations received in advance	2,572,491	
Interest maintenance reserve	0	5
Commissions to agents due or accrued	241,090	
General expenses due or accrued	1,035,963	
Taxes, licenses and fees due or accrued	1,983,712	
Federal income taxes due or accrued	(69,232)	
Remittances and items not allocated	(6,828)	
Asset valuation reserve	255,796	
Payable to parent, subsidiaries and affiliates	2,145,903	1
Escheat liability	318,548	
Risk sharing liability	76,161	
LAE liability	<u>631,464</u>	4
 Total Liabilities	 <u>\$53,768,505</u>	
 Common capital stock	 \$ 2,500,000	
Gross paid in and contributed surplus	31,450,000	
Unassigned funds (surplus)	<u>16,456,352</u>	
 Total Capital and Surplus	 <u>50,406,352</u>	
 Total Liabilities, Surplus and Other Funds	 <u><u>\$ 104,174,857</u></u>	

Summary of Operations
December 31, 2003

Income:

Premiums and annuity considerations	\$257,727,192	
Net investment income	2,586,026	
Amortization of interest maintenance reserve	117,303	
Total Income		\$260,430,521

Expenses:

Disability benefits and benefits under accident and health Policies	\$175,008,073	
Commissions on premiums and annuity considerations	4,596,999	
General insurance expenses	22,865,969	
Insurance taxes, licenses and fees excl. federal income tax	4,892,370	
Total Expenses		<u>207,363,411</u>

Net gain from operations before dividends to policyholders and federal income taxes	\$ 53,067,110
Dividends to policyholders	<u>-0-</u>

Net gain from operations after dividends to policyholders and before federal income taxes	\$ 53,067,110
Federal income taxes incurred	<u>18,228,374</u>

Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains	\$ 34,838,736
Net realized capital gains(losses) less capital gains tax	<u>(128,573)</u>

Net Income	<u>\$ 34,710,163</u>
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Capital and Surplus Account
December 31, 2002 to December 31, 2003

Capital and Surplus, December 31, previous year \$ 40,594,248

Gains and Losses in Capital and Surplus:

Net Income \$ 34,710,163

Change in net deferred income tax 331,609

Change in non-admitted assets and related items (228,143)

Dividends to stockholders (25,000,000)

Aggregate write-ins for gains and losses in surplus (1,525)

Net change in capital and surplus for the year 9,812,104

Capital and Surplus, December 31, 2003 \$ 50,406,352

Schedule of Examination Adjustments

<u>Description</u>	<u>Per Examiners</u>	<u>Per Company</u>	<u>Surplus Increase (Decrease)</u>
<u>Assets</u>	\$104,174,859	\$103,168,924	\$1,005,935
<u>Liabilities, Surplus and Other Funds</u>	\$53,768,505	\$52,762,570	\$1,005,935
Capital and Surplus	\$50,406,352	\$50,406,352	-0-

The above was due to a reclassification as identified in Note 1.

NOTES TO THE FINANCIAL STATEMENTS**ASSETS**

<u>Note 1. Cash</u>	<u>\$ 2,187,148</u>
<u>Receivable from Parent, subsidiaries and affiliates</u>	<u>\$15,031,206</u>
<u>Payable to Parent, subsidiaries and affiliates</u>	<u>\$ 2,145,903</u>

The above cash balance is lower by \$11,153,478 due to a **reclassification** which increased the asset account receivable from parent , subsidiaries and affiliates by \$12,159,413 and increase the liability account payable to parent, subsidiaries and affiliates by \$1,005,935. The transaction did not affect surplus. The Company reflected bank accounts and balances in its financial records that were in fact inter-company noneconomic transactions. The Company had some of its cash accounts in the name and tax ID of its affiliate plans and used a general ledger account, identified as a cash account, to reflect amounts unsettled over a significant period with Southern Health Services, the Virginia affiliate plan. In addition, the bank reconciliation included the CHLIC portion of the group premium deposits in an affiliate bank account or claim payments from an affiliate cash account. In the case of its Virginia affiliate plan, the Company journalized the settlement of inter-company balance without actually transferring cash to the Company. The examiner admitted the balances as the Company has taken corrective action to create new bank accounts or change the name and Tax ID of its cash accounts and settle all inter-company balances prior to completion of field work.

It is recommended that the Company ensure all of its bank accounts are in the Company's name and Tax ID #, and to properly identify and classify related party receivables and payables. The Company should be aware of the importance of safeguarding the Company's assets, maintaining a separation of assets between related parties and to eliminate any perception of impropriety as it relates to related party transaction.

Note 2. Investment Income Due and Accrued

\$ 576,909

The Company failed to non-admit its investment interest due and accrued on a bond in default. The amount was not material and there were not financial statement adjustments.

It is recommended that the Company take steps to insure that its investment income due and accrued on bonds in default are non-admitted in accordance with SSAP #4 of the accounting practices and procedures manual and Delaware Law Title 18 Del.C. §526.

Note 3. Receivables from parents, subsidiaries and affiliates

\$15,031,206

Although all other inter-company balances were settled monthly, the Company had a balance due from Coventry Health Care of Nebraska (CHC NE) on the Point of Service (POS) out of network business underwritten by the Company and a balance with Southern Health Services (SHS) that was journalized as settled, but monies have not been exchanged between the parties. The CHC NE balance has not been settled as of examination date. Subsequent year balances have been settled and the Company has non-admitted the 2003 balance in its 2004 annual statement balance. The amount was not material and the examiner did not make an adjustment to the financial statement. The SHS balance was for December 2003 was \$286,616 and the accumulated balance through Dec 2003 was \$7,546,530. This was part of the reclassification amount noted in Note 1. The examiner verified that these amounts were transferred over to a new bank account in the Company's name.

It is recommended that the Company takes steps to ensure that the CHC NE POS balances are settled in a timely manner and ensure settlement of the 2003 balance in accordance with Delaware Law Title 18 Del. C. §5005. The SHS balance is commented on in the Cash Note 1.

LIABILITIES

<u>Note 4. Policy and Contract Claims: Accident and Health</u>	<u>\$44,583,437</u>
<u>Note 4. Loss Adjustment Expenses</u>	<u>\$ 631,464</u>

The firm of INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to perform the review of the losses and loss adjustment expenses (LAE) reserves reported by the Company in its 2003 Annual Statement.

The liability for “Policy and Contract Claims: Accident and Health” consisted of the following components:

IBNR for small claims	\$21,980,697
IBNR for large claims	1,416,193
Reinsurance assumed	19,232,560
Other claim liabilities	<u>1,953,987</u>
Total	<u>\$44,583,437</u>

INS reviewed the actuarial analysis related to incurred, but unreported claims (small and large claim), and the reinsurance incurred but unreported claim liability segments and the Statement of Actuarial Opinion provided by the Company. The INS actuarial report stated that the reserves and related actuarial values carried on the balance sheet are fairly stated. The “Other claim liabilities” consists of miscellaneous medical expenses payable and was reviewed by the examiners.

The examiners tested the validity of the valuation data. The review resulted in no exceptions.

The Company’s reported amounts for “Policy and Contract Claims: Accident and Health” and “Loss Adjustment Expenses” are accepted for purposes of this examination.

<u>Note 5. IMR Calculation</u>	<u>\$ 0</u>
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The NAIC annual statement instructions indicate that when a Company uses the group method, capital gains/losses net of capital gains tax are tabulated according to the number of calendars to expected maturity. Calendar years to expected maturity means the calendar year of maturity minus the calendar year of sale date. The Company used the sales date minus maturity date.

The effect did not cause the positive IMR balance to change to a negative (liability account) IMR. Therefore, no financial statement change is warranted. However,

It is recommended that the Company group its capital gains/(losses) according to the NAIC Life and Accident and Health annual statement instructions as required by Delaware Law Title 18 Del. C. §526.

MARKET CONDUCT ACTIVITIES

The market conduct review of the Company was conducted simultaneously with the Financial Examination of the Company.

A review was made of the Company's market conduct activities with regard to its business practices and ability to fulfill its contractual obligations to policyholders and beneficiaries. Records and documentation relevant to these operations were reviewed. It should be noted that no negative market conduct reports from other jurisdictions were noted. A summary of the results of the market conduct activities, which were reviewed follows:

Sales and Advertising

The Company's promotional advertising materials were reviewed and it was determined that they were in compliance with the provisions of Section 2304 of the Delaware Insurance Code. The advertising materials used by the Company describe its products with propriety and it appears that the Company is not using any unfair or deceptive practices.

The Company is in violation of 18 Del.C. §1714, which requires the Company to file with the Delaware Insurance Department, in writing, an appointment identifying each insurance agent(s) in the State of Delaware. No agent shall solicit insurance on behalf of the Company prior to the filing of such appointment. In addition, the Company could not provide proof an agent was licensed in Delaware in accordance with 18 Del.C. §1703.

It is again recommended that the Company give prompt written notice of agent(s) appointments and terminations in accordance with Title 18 Del.C. §1714 and §1715. In addition the Company must ensure all agents are licensed in accordance with Title 18 Del.C. §1703.

A review of the Company's agents contracts resulted in the Company providing unsigned copies of the appointment and commission agreements with its agents. In addition, the Company's broker commission system reflected categories not consistent with the agent's contract terms although the calculations produce accurate results.

It is recommended that the Company undertake all steps to ensure all agreements with its agents are fully executed and to maintain that agreement for an audit trail. In addition, it is further recommended that the Company reconsider its utilization of categories in its system which may cause improper calculations.

Underwriting

A sample of policy and application files was selected for review. The review was performed to ascertain the Company's practices with regard to the following areas: compliance with policy provisions; compliance with underwriting guidelines; consistency in the application of underwriting standards; compliance with applicable statutes and regulations; accuracy of return premium calculations; prompt notification of declination or rescission; and unusual decisions made by underwriting personnel. No significant exceptions were noted.

Rates/Policy Forms

The Company, through its managed care health plans, offers flexible provider products, including PPO and POS products. In Delaware, it is acceptable for the Delaware HMO to write POS products in conjunction with the writing of their HMO business by Coventry Health Care of Delaware, Inc., under the "writ of blanket health insurance" pursuant to 18 Del.C. §3541.

The examiner judgmentally selected six policies to verify compliance with the form and rate filings requirements. In 2003, the Company issued policies in Ohio on forms that were not approved in Ohio. The Company has provided evidence that this issue has been corrected.

It is recommended that the Company ensure all policy forms are issued according to each jurisdictional requirements and that corrective action is taken to ensure compliance in the future.

As part of that sample, the examiner requested support for the aggregate and specific stop loss policy (ASO) filing in Delaware. The Company could not provide evidence that the policy form and rates have been filed in Delaware or in any other state the product was issued during the examination period.

It is recommended that the Company review all policy forms and rate filings to determine that forms have been properly filed and to immediately execute the filing of forms not filed in accordance with the laws of each jurisdiction the policy is issued.

As part of that sample noted above, a number of contracts failed to reflect Coventry Health and Life Insurance Company as the underwriter of the PPO coverage in the contract. The contracts were signed by the affiliate health plans who administer the contract on behalf of the Company.

It is recommended that the Company review its forms filings to ensure that Coventry Health and Life Insurance Company is noted as the underwriter on products issued in its name.

Claims Practices

The Company does possess written claims processing procedures, which were reviewed at the HealthAmerica Pennsylvania, Inc., offices in Harrisburg, Pennsylvania. These claim procedures are applicable within the entire Coventry Group, including the Company's Newark, Delaware, offices. A review was conducted of the Company's current claims processing procedures from initial report through settlement, at the Harrisburg, Pennsylvania, business unit. The procedures appear to be both comprehensive and adequately documented. The information requested of the claimants is reasonable as well as thorough.

It was determined that the Company responded to the claimants requests in a timely manner and that claims were settled in a timely and equitable manner.

Complaint Handling

The Company provided written set of procedures for handling complaints as regards the business being written in Delaware, Ohio, Pennsylvania and Missouri. Upon review by the examiners, their procedures appear adequate for claims and Department of Insurance complaints but the policy does not address retention, maintenance of complaint files and the handling of complaints other than claims and claims appeal.

A review was conducted of the Company's complaint logs for the States of Delaware, Ohio, Iowa and Missouri. In reviewing the complaint logs for Delaware, the Company could not provide substantive evidence supporting the information noted in the complaint log required under 18 Del.C. §2304 (17), which is based on the NAIC Model Act.

It is recommended that the Company maintain sufficient records for complaints to be able to validate and ensure its logs are accurate in accordance with 18 Del C. Section 2304 and include in its complaint procedures complaint record requirements and retention items.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company's compliance with prior examination recommendations was reviewed for each account in the current examination for which there were prior examination recommendations. All prior examination recommendations were either directly or indirectly addressed in the current examination. In the instances where the Company was not in compliance with the prior examination recommendation, a repeat recommendation was made in this report.

Therefore, this examination will state that this recommendation is again being made.

SUMMARY OF RECOMMENDATIONS

Management and Control - It is recommended that the Company comply with its by-laws regarding the number of directors in accordance with 18 Del. C. §4903. (Page 5)

Territory and Plan of Operations - It is recommended that the Company ensure all business is correctly allocated to each state in accordance with the NAIC Life and Accident and Health annual statement instructions and 18 Del. C. §526. (Page 10)

Contracts and Agreements - It is recommended that the Company formalize an agreement for accounting services reflecting the duties and responsibilities provided by Conning Asset Management to CHLIC and formalize a process to properly charge the Company based on contract terms. (Page 11)

Contracts and Agreements - It is recommended that the Company ensure compliance with the terms of its underwriting and administrative management agreement with Medical Risk Managers. (Page 12)

Accounts and Records - It is recommended that the Company reflect the gross IBNR and the ceded IBNR portion separately in the Company financial records in accordance with SSAP #61 and 18 Del. C. §526. (Page 14)

Accounts and Records - It is recommended that the Company insure that Exhibit 8, Part 2 and Schedule H, Part 8 are prepared properly and only include business assumed from and ceded to other entities in accordance with the NAIC Life and Accident and Health annual statement instructions and 18 Del. C. §526. (Page 14)

Note 1. Cash

Note 1. Receivable from parents, subsidiaries and affiliates

Note 1. Payable to parents, subsidiaries and affiliates - It is recommended that the Company ensure all of its bank accounts are in the Company's name and Tax ID and to properly identify and classify related party receivables and payables. The Company should be aware of the importance of safeguarding the Company's assets, maintaining a separation of assets between related parties and to eliminate any perception of impropriety as it relates to related party transaction. (Page 19)

Note 2. Investment income due and accrued - It is recommended that the Company take steps to insure that its investment income due and accrued on bonds in default are non-admitted in accordance with SSAP #4 of the accounting practices and procedures manual and 18 Del.C. §526. (Page 20)

Note 3. Receivable from Parent, Subsidiaries and Affiliates - It is recommended that the Company takes steps to ensure that the CHC NE POS out of network balances are settled in a timely manner and to settle the 2003 balance in accordance with 18 Del. C. §5003. The SHS balance is commented on in the Cash Note 1. (Page 20)

Note 5. IMR Calculation - It is recommended that the Company group its capital gains/(losses) according to the NAIC Life and Accident and Health annual statement instructions as required by Delaware Law 18 Del. C. §526. (Page 22)

Market Conduct Activities (Sales and Advertising) - It is recommended that the Company undertake all steps to ensure all agreements with its agents are fully executed and to maintain that agreement for an audit trail. In addition, it is further recommended that the Company reconsider its utilization of categories in its system which may cause improper calculations. (Page 23)

Market Conduct Activities (Rates and Forms) - It is recommended that the Company ensure all policy forms are issued according to each jurisdiction's requirements and that corrective action be taken to ensure compliance in the future. (Page 24)

Market Conduct Activities (Rates/Policy Forms) - It is recommended that the Company review all policy forms and rate filings to determine that forms have been properly filed and to immediately execute filing of forms not filed in accordance with the laws of each jurisdiction the policy is issued. (Page 24)

Market Conduct Activities (Rates/Policy Forms) - It is recommended that the Company review its forms filings to ensure that Coventry Health and Life Insurance Company is noted as the underwriter on products issued in its name. (Page 24)

Market Conduct Activities (Complaints) - It is recommended that the Company maintain sufficient records for complaints to be able to validate and ensure its logs are accurate in accordance with 18 Del C. Section 2304 and include in its complaint procedures complaint record requirements and retention items. (Page 25)

Compliance With Prior Examination Recommendations – The following one recommendation noted in the prior examination report is a repeat recommendation:

Market Conduct Activities (Sales and Advertising) - It is again recommended that the Company give prompt written notice of agent(s) appointments and terminations in accordance with 18 Del.C. §1714 and §1715. In addition the Company should ensure all agent are licensed in accordance with 18 Del.C. §1703. (Page 23)

CONCLUSION

As a result of this examination, the financial condition of Coventry Health and Life Insurance Company as of December 31, 2003 was determined to be as follows:

<u>Description</u>	<u>Current Examination</u>	<u>December 31, 1999 Examination</u>	<u>Changes Increases (Decreases)</u>
Assets	\$104,174,859	\$82,264,074	\$21,910,785
Liabilities	\$53,768,505	\$51,816,772	\$1,951,733
Capital and Surplus	\$50,406,352	\$30,447,302	\$ 19,959,050

In addition to the undersigned, the following participated in the examination: Athanasios Rousseas, ASA, MAAA of INS Consultants, Inc., and Donald M. Sanders, CFE.

James J. Blair, Jr., CFE, CPA, served as the Examination Supervisor.

Respectfully submitted,



Joseph A. Rome, Examiner, CFE
Examiner In-Charge
State of Delaware
Northeastern Zone, NAIC